dayton hudson corporation 1972 annual report

TARGET

TEAM

JOHN A. BROWN Company

J.B. Hudson

Dayton Hudson

LECHMERE

LIPMAN'S

THE J. L. HUDSON COMPANY

C.D.Peacock

Shreve's

Jessops

Corporation

J.E. Caldwell

Highlights

	1972	1971	Increase (Decrease)
Revenues			
Retail	$1,262,759,000	$1,088,338,000	16.0%
Real Estate	34,627,000	32,418,000	6.8
	$1,297,386,000	$1,120,756,000	15.8
Earnings Before Income Taxes and Extraordinary Items			
Retail	$ 49,650,000	$ 42,277,000	17.4
Real Estate	4,930,000	3,427,000	43.9
	$ 54,580,000	$ 45,704,000	19.4
Earnings Before Extraordinary Items			
Retail	$ 25,316,000	$ 22,619,000	11.9
Real Estate	2,879,000	2,035,000	41.5
	$ 28,195,000	$ 24,654,000	14.4
Extraordinary Items, Net	$ (692,000)	—	—
Net Earnings	$ 27,503,000	$ 24,654,000	11.6
Per Common Share			
Earnings Before Extraordinary Items	$ 1.74	$ 1.52	14.5
Extraordinary Items, Net	(.04)	—	—
Net Earnings	$ 1.70	$ 1.52	11.8
Funds Provided by Operations, Before Changes in Long-Term Debt (see Page 4)			
Retail	$ 47,504,000	$ 42,927,000	10.7
Real Estate	8,134,000	8,414,000	(3.3)
Square Feet			
Retail Space	15,353,000	14,030,000	9.4
Leasable Property	3,350,000	3,468,000	(3.4)
Number of Shareholders	9,628	8,804	9.4

The Highlights should be read in conjunction with the Financial Review and Financial Statements.

COVER

Embossed on the cover of this report are the names and symbols of the operating companies that make up Dayton Hudson Corporation. Through these companies, Dayton Hudson is engaged in retail operations in 31 states, and in the development, ownership and management of income-producing real estate.

CONTENTS

To Our Shareholders:

1972 was a year of substantial growth for Dayton Hudson Corporation — in sales, in earnings, in new stores.

Consolidated revenues increased 15.8 percent to $1,297,386,000. Net earnings before extraordinary items rose 14.4 percent to a record $28,195,000, or $1.74 per share. Net earnings after extraordinary items were $27,503,000, or $1.70 per share.

Our retail business benefited from a combination of strengthened merchandising programs, rising consumer confidence and our continued physical expansion. We increased total retail space by 9.4 percent in 1972, while experiencing generally accelerating sales improvement as the year progressed. Significantly, the sharpest improvement came during the important Christmas season; December sales were up 20 percent from a strong December performance a year earlier.

For the full year, retail sales increased 16 percent, pretax earnings 17.4 percent.

The key determinants in this performance were Hudson's and Target.

Hudson's, benefiting from a strengthened management team and Detroit's improving economic environment, began to capitalize on heightened emphasis on fashion merchandising. As a result, it led our department store group to a solid improvement in earnings.

Target, on the other hand, was responsible for a decline in the earnings of our low-margin group. Two major factors were involved. One was the expected start-up costs associated with the opening of 16 Target stores, more than a 50-percent increase in units. The second was slower-than-expected sales growth in Target's older units.

Target succeeded in improving the performance of these stores during the fall and Christmas seasons, however, and this momentum has carried over into 1973.

Among our other retail operations, Dayton's, Diamond's, Lipman's, Lechmere and our specialty stores group all contributed to our improved earnings performance.

Two nonrecurring items had an impact on our 1972 results. Early in 1973, we curtailed expansion plans for a catalog-showroom business, concluding that our capital resources could be applied more effectively within our existing businesses. A writedown associated with our investment in this business has been charged against 1972 results. The second item was a capital gain on the sale of miscellaneous investments during 1972. The net effect of these two items was a reduction in net earnings of $692,000, or 4 cents per share.

We believe that the over-all progress of our retail business in 1972 testifies to the value of our diversified strategy in a period of diverse and rapidly shifting consumer preferences.

The year also was one of improvement for our real estate business, Dayton Hudson Properties. It included the completion of a major expansion of one of our eight regional shopping centers, and ground-breaking for our ninth.

Our experience has shown our retail and real estate businesses to be natural allies in an expanding corporation heavily involved in the acquisition of sites and the construction of stores and shopping centers. But we also recognize that these two businesses have different measurements of performance and different financial structures, and thus are difficult to evaluate solely on the basis of consolidated financial statements.

For that reason we have made a significant departure in this report. To give a clearer picture of our operations, we have developed separate financial statements for these two lines of business. By displaying the results of each business in a form appropriate for its industry, we hope to make possible a more meaningful evaluation of our total business.

As retailers, we share our customers' concern about rising prices. It is essential to the health of the national economy that inflation be kept under control. Prices on the type of merchandise we sell increased an average of about 2 percent during 1972, helping to slow the rise of the consumer price index. But we must stress that an important factor in holding down prices is our ability to import goods, thereby contributing to competitive pricing.

We expect 1973 to be an excellent year. The strengthened merchandising base we built in 1972 should enable us to capitalize more fully on the anticipated rise in disposable income and consumer spending. Accordingly, we expect to achieve record sales and earnings again in 1973.

Bruce B. Dayton

Bruce B. Dayton
Chairman of the Board

K. N. Dayton

K. N. Dayton
President

Joseph L. Hudson, Jr.

Joseph L. Hudson, Jr.
Vice Chairman of the Board

March 30, 1973

Financial Review

Dayton Hudson Corporation consists of two distinctly different yet related businesses — retail and real estate. Our retail business, nationwide in its scope, operates department, low-margin and specialty stores, which it owns or leases. Our real estate business, on the other hand, develops, owns and manages regional shopping centers, commercial properties and office buildings.

We believe that the performance and financial structure of each business is independent of the other and should be judged against the standards of its own industry.

For our retail business, the best single measure of performance is net earnings. For real estate, we think that a better gauge of performance is earnings *before* deductions for depreciation and other non-cash charges — a sum highlighted in this report as *funds provided by operations.* The Corporation's real estate assets are primarily income-producing properties recorded on its books at cost. Under generally accepted accounting principles, a portion of this cost is charged off each year as depreciation, although our experience, and that of the real estate industry, is that in most cases the value of operating properties increases as revenues from the properties increase.

We have also highlighted income from operating properties before depreciation and interest as an index of increasing asset value. We, along with others in the real estate industry and most secured lenders, regard this as an important measure.

Separate standards also guide our use of borrowed money in the expansion of our two businesses. In retail operations, our objective is an equal balance of debt (including capitalized leases) and equity capital, as well as a satisfactory level of fixed charge coverage. In contrast, our real estate business is more heavily leveraged, in keeping with industry practices. The credit behind these real estate borrowings consists of long term leases with a group of diverse, high-quality tenants and is independent of the credit of Dayton Hudson Corporation.

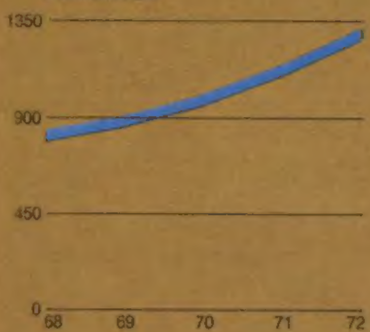
To permit a more definitive examination of both our retail and real estate performances, we have introduced a new line-of-business reporting format this year. In this presentation, which includes separate retail and real estate financial statements, the earnings of each business reflect only those revenues and profits generated by the assets each manages.

In prior reports, earnings associated with eight of our major department stores were necessarily recorded in the results of our real estate business because the stores are owned by real estate subsidiaries. This obscured somewhat the results of each business and did not reflect accurately the way each is managed. Under our new reporting format — the product of a lengthy study by our financial staff and our auditors — we are now able to report these retail assets as part of our retail business. We believe this will provide a clearer picture of the performance of each business, making it possible for our shareholders to see the results as we do.

As in previous reports, we have detailed pretax earnings for our department, low-margin and specialty store operations as well as our real estate business. However, the new reporting format has required restatement of prior years' results in these lines of business. (Consolidated figures are *not* affected.) A comparison of the restated figures with those presented in prior reports will show — basically — that the reporting change has served to reduce real estate operating results and increase those of the department stores group.

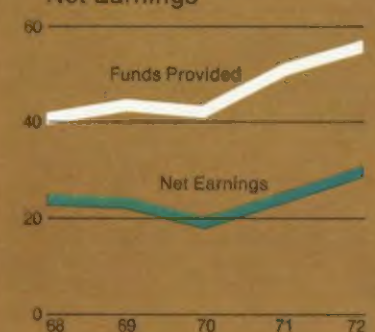
Consolidated

Revenues



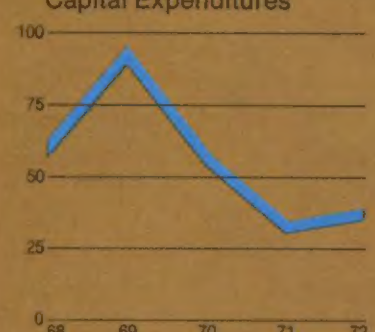
(millions)	1972	1971	Increase (Decrease)
Revenues........	$1,297.4	$1,120.8	15.8%

Net Earnings



(millions)	1972*	1971	Increase (Decrease)
Net Earnings.....$	28.2	$ 24.7	14.4%
Funds Provided By Operations..	55.6	51.3	8.4%

Capital Expenditures

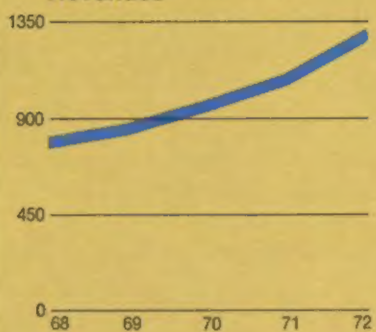


(millions)	1972	1971	Increase (Decrease)
Capital Expenditures...$	36.9	$ 33.3	10.8%

*Before extraordinary items

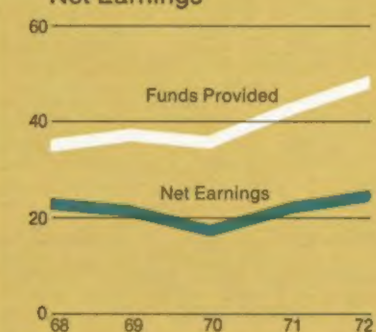
Retail

Revenues



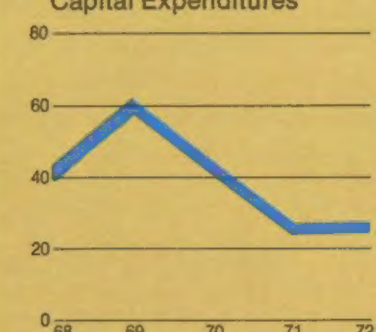
(millions)	1972	1971	Increase (Decrease)
Revenues........	$1,262.8	$1,088.3	16.0%

Net Earnings



(millions)	1972*	1971	Increase (Decrease)
Net Earnings.....$	25.3	$ 22.6	11.9%
Funds Provided By Operations..	47.5	42.9	10.7%

Capital Expenditures

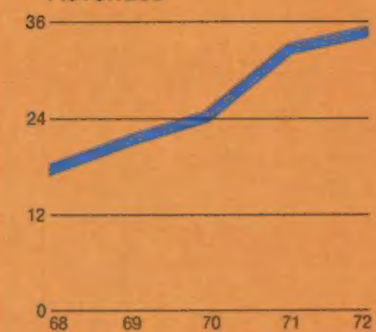


(millions)	1972	1971	Increase (Decrease)
Capital Expenditures...$	27.0	$ 26.9	.3%

*Before extraordinary items

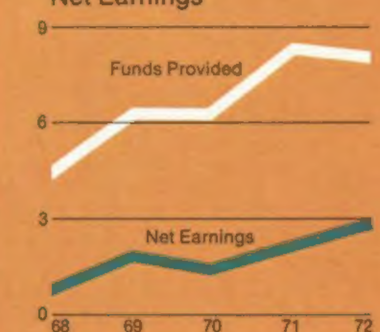
Real Estate

Revenues



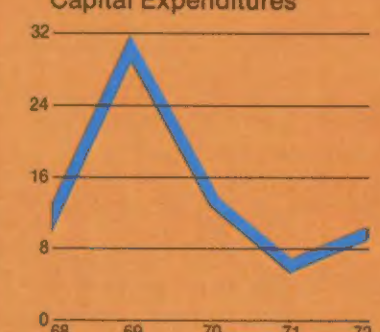
(millions)	1972	1971	Increase (Decrease)
Revenues.......$	34.6	$ 32.4	6.8%

Net Earnings



(millions)	1972	1971	Increase (Decrease)
Net Earnings.....$	2.9	$ 2.0	41.5%
Funds Provided By Operations..	8.1	8.4	(3.3)%

Capital Expenditures



(millions)	1972	1971	Increase (Decrease)
Capital Expenditures...$	9.9	$ 6.3	55.5%


THE CASINO

Retail

The Casino, a new [illegible] on main floor of [illegible] downtown Detroit

Retail sales totaled $1,262,759,000 in 1972, up 16 percent from $1,088,338,000 in 1971. Retail net earnings before extraordinary items were $25,316,000, compared with $22,619,000 in 1971. Retail earnings per share were $1.56, up from $1.39.

We increased the number of states in which we operate from 23 to 31, our stores from 159 to 211 and our retail space from 14,030,000 to 15,353,000 square feet.

Capital expenditures for retail expansion and modernization totaled $27,020,000, compared with $26,939,000 in 1971. We expect retail capital expenditures to total about $30 million in 1973. Forty-eight stores are scheduled to open in 1973, including three department stores.

Department Stores

We are pleased with the progress of our department stores group, which led the Corporation's profit improvement in 1972.

Without the benefit of an increase in total retail space, sales increased 8.7 percent to $732,858,000; pretax earnings reached $39,146,000, a 42.5-percent rise. The group accounted for 56.5 percent of the Corporation's total revenues and 71.7 percent of its pretax earnings.

The performance was evidence of a rising consumer interest in and ability to buy the kinds of discretionary products that fashion-oriented department stores are adept at merchandising — products that are extensions of the consumer's personality and individuality.

Fashion [illegible] in Lipman's new store in Lloyd Center, Portland.

Our strategy has been based on our belief that the market for this kind of merchandise would expand as disposable income rose. Thus, our department stores are positioned to capitalize on their ability to stay on top of the accelerating shifts in consumer preferences, to offer the expanded services and depth of selection that many consumers are seeking in today's economic environment.

Of special significance was the improvement at Hudson's, where a strengthened management team took action to intensify the profit orientation of its merchandising programs.

Our progress toward realizing Hudson's profit potential has gone more slowly than we had anticipated at the time of our merger—partly because it is difficult to change direction quickly in a company as large as Hudson's; partly because of Detroit's poor economic climate in recent years; partly because of the company's need to develop greater depth in its merchandise management.

In 1972, however, Hudson's began to get results from programs aimed at improving its fashion image through further emphasis on higher-margin merchandise, better timing on fashion trends and more effective presentation and promotion. These programs, implemented in an improving Detroit economy, helped raise sales of suburban stores to more than 75 percent of Hudson's total volume. At its downtown store, Hudson's achieved improved operating efficiency through remodelings and a 242,000-square-foot reduction in retail space.

Furniture displayed in attractive room settings at Dayton's new Rochester store.

Dayton's opened its new 155,000-square-foot store in Rochester, Minnesota, in August, replacing a smaller store in that city. In November, it opened a free-standing Dayton's Home Store of 46,000 square feet in Brookdale Shopping Center north of Minneapolis.

In January, Dayton's linked its downtown store with Minneapolis's multi-block "skyway" system when it opened an enclosed bridge across Nicollet Mall to the new IDS Center. The walkway is part of an elevated network that eventually will connect 56 blocks of the business district.

Ground was broken in 1972 for the first Dayton's store to be built outside of Minnesota — a 115,000-square-foot building in Fargo, North Dakota. Completion is scheduled for August 1973. Also under construction is a Dayton's store in the Ridgedale Shopping Center west of Minneapolis scheduled for completion in 1974.

Lipman's opened its fifth store in Oregon, a 50,000-square-foot addition to Portland's Lloyd Center. Its sixth store is scheduled to open in Portland's Washington Square this fall.

Diamond's has started construction of a 191,000-square-foot store in MetroCenter in northwest Phoenix. The store is scheduled to open this fall and will be followed in 1974 by a 100,000-square-foot store to be built in Tucson, Arizona.

John A. Brown will open a 193,500-square-foot store in Oklahoma City's Crossroads center, which is under construction now and scheduled for completion in 1974.

Low-Margin Stores

Sales of the low-margin group increased 27.4 percent to $440,441,000. But pretax earnings, reflecting Target's performance, declined to $9,222,000 from $13,749,000.

Target opened 16 new stores within a seven-month period, increasing retail space by 38 percent and completing the year with 46 stores in nine states.

The start-up costs connected with this aggressive expansion held back Target's profit contribution, as did slower-than-expected sales growth in older stores and efforts to match heavy competitive promotion.

Flowers, credit buying are Target attractions in new Oklahoma City store.


Photo equipment is a popular line at Lechmere, Boston-based hardgoods retailer.

Target's "supergraphics" brighten this store in Oklahoma City, one of four opened there in 1972.

Three of the new stores were opened in established markets — two in the Denver area, one in Minneapolis-St. Paul. Eight were opened in small or medium-size markets in Iowa and Illinois. Four are in Oklahoma City, which our research had identified as one of the most promising major markets in the nation, and one in Omaha, Nebraska. Performance of this new group of stores has been favorable.

This increase in units and continued geographic dispersion has led Target to begin decentralization of its management structure. The first step in this process was the development during 1972 of a district merchandising system. Target drew from the ranks of experienced store personnel to accomplish this. That in turn was a factor in the slower sales growth of Target's mature stores. But it also gave Target a regionalized approach to merchandising essential to superior performance over the long term.

Following the positive results of a pilot bank-card credit program in the St. Louis market, Target added credit shopping to all locations during the second half of the year. In Minnesota, customers are now able to use the Dayton's credit card for Target purchases through a joint Dayton-Target credit program.

A major increase in discount competition occurred in the Minneapolis-St Paul market during the year However the competitive impact on Target has been less than expected, and Target maintained its share of market with second-half sales increases.

Target's emphasis in 1973 will be on building its apparel merchandise strength while consolidating its rapid expansion of 1972. Two additional openings are planned during the year.

Lechmere, capitalizing on an improvement in the Boston economy, expanded its share of market without an increase in retail space in 1972.

Lechmere has three low-margin hardgoods stores in this market, the newest opened in 1970. It expanded beyond the Boston area to Springfield, Massachusetts, in 1971.

Specialty Stores

The specialty stores group had sales of $89,460,000, an increase of 31 percent, and pretax earnings of $1,282,000, up 18 percent.

Dayton Hudson Booksellers opened 21 B. Dalton stores and three Pickwick stores to raise its store total to 80 — while selling 15 million books in 1972. Included in that total was approximately 10 percent of the national hardcover sales of the best-selling "Jonathan Livingston Seagull." Booksellers increased the number of states in which it operates from 15 to 26, becoming the Corporation's first representative in Florida, New Mexico, New York, North Carolina and South Carolina, North Dakota and South Dakota, and Washington.

It plans approximately 35 openings in 1973.

Dayton Hudson Jewelers experienced an improving sales trend in 1972, while focusing on administrative and management efficiencies across its six regional divisions. It centralized its advertising and a number of administrative functions in its Minneapolis headquarters, and established a New York buying office.

Newly remodeled Shreve's store remains San Francisco's leading jeweler after more than a century of service.

Team Central increased its total of company-owned stores by 12 and its franchised and partially owned stores by 18, completing the year with a total of 103 units in 14 states. It plans to open about 18 stores in 1973, eight of which will be company-owned.

The Corporation tested cosmetic-accessories and direct mail businesses during 1972. Both have been discontinued.

[illegible] of B. Dalton's 21 openings in [illegible] was this two-level store in downtown San Francisco.

Team now has more than 100 stores, including this new [illegible] in Chicago's Woodfield Mall.

A one-third expansion of Southdale Shopping Center added J. C. Penney as center's third major department store

Real Estate

Income from operating properties, before depreciation and interest, increased 24 percent to $13,163,000 in 1972. Net earnings were $2,879,000, compared with $2,035,000 in 1971. *Funds provided by operations* totaled $8,134,000, compared with $8,414,000 a year earlier.

Unlike the real estate operations of most other retailers, Dayton Hudson Properties constitutes a separate business, not a support function for our retail operations. It develops, owns and manages regional shopping centers and a variety of other commercial properties that are held for investment and not for sale.

In all, it operates 3,350,000 square feet of shopping and commercial space leased to non-Dayton Hudson tenants.

Major 1972 developments included:

- Completion of a one-third expansion of Southdale Center, including a 298,000-square-foot Penney's department store and 43 more specialty store tenants. Southdale, the nation's first two-level enclosed mall, thus became our fourth center in the 1-million-square-foot range.
- Ground-breaking for our ninth regional shopping center — Ridgedale. Located west of Minneapolis, this center will total 1.1 million square feet when completed in 1974. It will be a two-level enclosed mall with 125 specialty shops anchored by Sears, Penney's, Donaldson's and Dayton's department stores.
- Development of plans for expansion and enclosure of our Northland and Eastland Centers in Detroit and the addition of a full-line Penney's department store at each. Northland and Eastland are the only Dayton Hudson centers without enclosed malls.
- Purchase of 400 acres and acquisition of options on an additional 1,000 acres of land east of St. Paul, Minnesota, for possible development as a regional shopping center.

A third wing of Southdale Medical Building was completed early in 1973 and is now being occupied. In the Detroit area, Tower 14, a new 14-story office building, will be ready for occupancy in August. The building is located on the periphery of Northland Center in Southfield, Michigan.

Development of buildings such as Southdale Office Centre is part of the Corporation's real estate business.

Architect's rendering shows interior design of Ridgedale Shopping Center, under construction in surburban Minneapolis.

Real Estate Investments

Shopping Centers		Opened	Square Feet*
Northland	Southfield, Mich.	1954	1,307,000
Southdale	Edina, Minn.	1956	1,097,000
Eastland	Harper Woods, Mich.	1957	945,000
Brookdale	Brooklyn Center, Minn.	1962	852,000
Westland	Westland, Mich.	1965	643,000
Rosedale	Roseville, Minn.	1969	572,000
Southland	Taylor, Mich.	1970	545,000
Genesee Valley	Flint, Mich.	1970	827,000
Commercial, Office, Other			
Southdale Medical Building		1958	95,000
Eastland Professional Building		1960	46,000
Nine Mile Medical Building		1967	49,000
Eastland Apartments		1969	80,000
Southdale Office Centre		1968	212,000
Other			74,000
	TOTAL		7,344,000

Undeveloped Land		Acres
Twin Cities		1,174
Detroit		1,153
Las Vegas		22
Other		210
	TOTAL	2,559

*Gross leasable area including department store space owned by Dayton Hudson and other retailers. Excludes joint ventures not managed by Dayton Hudson Properties.

Real Estate Statistics

	Shopping Centers	Other	Total
Total Project Square feet	6,788,000	556,000	7,344,000
Dayton Hudson Properties Portion			
Square feet	2,794,000	556,000	3,350,000
Cost	$102,055,000	$18,590,000	$120,645,000
Book value	$ 65,484,000	$14,740,000	$ 80,224,000
Revenues	$ 20,748,000	$ 3,572,000	$ 24,320,000
Income from Operating Properties before Depreciation and Interest	$ 11,196,000	$ 1,967,000	$ 13,163,000
Mortgage debt	$ 70,545,000	$12,424,000	$ 82,969,000

Financing

During the year, Dayton Hudson refinanced many of its short-term obligations and one of its major regional shopping centers.

In the fourth quarter, the Corporation arranged a $25 million term loan with a group of banks and used the proceeds to repay bank line and commercial paper borrowings. The loan carries a variable interest rate and will be repaid over the last eight years of its 10-year term.

A number of our mature real estate properties can support additional borrowings. Such refinancings provide a source of capital for our retail and real estate expansion.

In this regard, Southdale Shopping Center was refinanced in the fourth quarter. Inasmuch as our real estate business did not require these additional funds, they contributed to the $9.7 million dividend paid to our retail business to further reduce its short-term borrowings.

Legal Matters

Beginning in 1969, the Federal Trade Commission conducted an investigation of the Corporation's merger with The J. L. Hudson Company and its subsequent acquisition of the John A. Brown Company. On February 26, 1973, the Secretary of the Commission notified the Corporation that as a result of the information developed in the investigation, it did not appear that further action by the Commission in reference to those transactions is warranted, and that the matter has been closed.

Corporate Citizenship

Starting with the premise that business exists to serve society, Dayton Hudson Corporation seeks to fulfill its responsibilities as a corporate citizen in two ways:

First, through its basic function of providing goods and services to people — a function that is the primary subject of this Annual Report.

Second, by contributing talent and funds to improve the communities of which it is a part.

It is the Corporation's practice to contribute 5 percent of its taxable income for the improvement of these communities. Donations by the Corporation and Dayton Hudson Foundation for this purpose totaled $1,637,000 in 1972.

The two broad areas where we feel most able to contribute effectively are the development of programs to help solve social problems, and the support of the arts — an area relatively neglected by government and other funding sources.

During 1972, we contributed to a number of programs aimed at the rejuvenation of our urban areas. Included were major contributions to two civic organizations working to solve Detroit's economic and social problems: New Detroit, Inc., and Detroit Renaissance. Cultural support included grants to symphony orchestras and art institutions and programs in our headquarters and operating-company cities.

Among the best examples of programs we supported are these:

Tamarac Youth Center — A wilderness camp program in Minnesota designed to improve the attitudes, vocational skills and scholastic ability of inner city youths. It was initiated by the Dayton Hudson Foundation and established with the City of Minneapolis, the YMCA and the Minneapolis School Board. During its first three years, Tamarac was attended by 3,700 young people, about half of them economically disadvantaged. Begun as an experiment, the program has earned the endorsement of professional evaluators — and its support will be taken over by public agencies in 1973.

Indian Art Show — A 2½-month exhibition by the Minneapolis Institute of Arts and Walker Art Center, presenting the full range of the major forms of American Indian art. Dayton Hudson Foundation contributed the first $50,000, enabling the institutions to receive a matching grant from the National Endowment for the Arts. The exhibition is believed to be the largest Indian arts display ever assembled. Thirty-eight museums lent major works; in all, more than 880 objects were displayed. Approximately 180,000 persons attended.

Corporate citizenship also is reflected in the way a company conducts its business. In addition to community development, Dayton Hudson has formal programs concerning consumerism, human resources and environmental impact. Each operating company is charged with the responsibility of developing its own program to meet its needs in these areas.

Retail

Revenues of the retail operations increased 16 percent in 1972 to $1,262,759,000 from $1,088,338,000.

Net earnings increased 11.9 percent to $25,316,000 from $22,619,000 in 1971.

Earnings per share contributed by retail operations increased to $1.56 from $1.39. The LIFO adjustment reduced earnings by 9 cents per share, compared with 5 cents per share in 1971.

Capital expenditures for expansion of the retail group were $27,020,000 in 1972. The Corporation expects to spend approximately $30 million on retail expansion in 1973.

Department Stores

Markets served in 1972: Hudson's — Detroit, Flint, Michigan, Toledo, Ohio; Dayton's — Minneapolis-St. Paul, Rochester, Minnesota; Diamond's — Phoenix, Arizona, Las Vegas, Nevada; Lipman's — Portland, Salem, Corvallis, Oregon; John A. Brown — Oklahoma City, Tulsa, Oklahoma.

Financial Statistics

(Millions)	1972	1971	Change
Revenues	$732.9	$674.2	8.7%
Earnings Before Interest and Taxes	47.2	35 6	32 6%
Earnings Before Taxes	39.2	27.5	42.5%

Stores and Expansion

	End of 1972		End of 1971	
	Stores	Space*	Stores	Space*
Hudson's	11	4,881	11	5,100
Dayton's	6	2,734	6	2,651
Diamond's	5	606	5	606
Lipman's	5	506	4	456
John A. Brown	4	481	4	481
Total	31	9,208	30	9,294

*Thousands of Square Feet

Low-Margin Stores

Markets served in 1972: Target — Minneapolis-St. Paul, Duluth, Minnesota; Denver, Colorado Springs, Fort Collins, Colorado; Dallas, Houston, Texas; Oklahoma City, Tulsa, Oklahoma; Ames, Bettendorf, Cedar Rapids, Clinton, Des Moines, Fort Dodge, Mason City and Ottumwa, Iowa; Moline, Illinois; St. Louis, Missouri; Omaha, Nebraska; Milwaukee, Wisconsin; Lechmere — Boston, Springfield, Massachusetts.

Financial Statistics

(Millions)	1972	1971	Change
Revenues	$440.4	$345.8	27.4%
Earnings Before Interest and Taxes	13.3	17.3	(23.1)%
Earnings Before Taxes	9.2	13.7	(32.9)%

Stores and Expansion

	End of 1972		End of 1971	
	Stores	Space*	Stores	Space*
Target	46	4,747	30	3,449
Lechmere	4	771	4	771
Total	50	5,518	34	4,220

*Thousands of square feet.

The Corporation has moved its offices into the 57-story IDS Tower connected by skyway with Dayton's downtown Minneapolis store.

Results of Operations

Dayton Hudson Corporation and Subsidiaries

Consolidated

(Thousands of Dollars)

REVENUES

Net retail sales, including leased departments and carrying charges . . . .

Real estate sales . . . .

Rental revenue . . . .

COSTS AND EXPENSES

Cost of retail sales, buying and occupancy . . . .

Cost of real estate sales . . . .

Selling, publicity and administrative . . . .

Depreciation and amortization . . . .

Rental expense — retail . . . .

Interest expense . . . .

Taxes other than income taxes . . . .

EARNINGS BEFORE INCOME TAXES AND EXTRAORDINARY ITEMS . . . .

INCOME TAXES (Note A)

Current . . . .

Deferred . . . .

EARNINGS BEFORE EXTRAORDINARY ITEMS . . . .

EXTRAORDINARY ITEMS (Note D) . . . .

NET EARNINGS . . . .

EARNINGS PER SHARE (Note E) :

Earnings before extraordinary items . . . .

Extraordinary items, net . . . .

Net earnings . . . .

See notes to financial statements

Results of Operations

Retail

53 Weeks Ended February 3, 1973	52 Weeks Ended January 29 1972
$1,260,845	$1,086 425
10,307	9 641
26,234	24 690
$1,297,386	$1,120,756
$ 917,472	$ 784 827
5,120	4 594
230,539	203 017
24,370	22 653
16,926	11 706
18,482	18,000
29,897	30 255
$1,242,806	$1 075,052
$ 54 580	$ 45,704
$ 18 994	$ 14 482
7,391	6,568
$ 26,385	$ 21,050
$ 28,195	$ 24,654
(692)	—
$ 27 503	$ 24 654
$ 1.74	$ 1 52
(.04)	—
$ 1 70	$ 1.52

(Thousands of Dollars)	53 Weeks Ended February 3, 1973
REVENUES	
Net retail sales, including leased departments and carrying charges	$1,260,845
Rental revenue	1,914
	$1,262,759
COSTS AND EXPENSES	
Cost of sales buying, and occupancy	$ 912,243
Selling, publicity and administrative	225,999
Depreciation and amortization	19,749
Rental expense	16,926
Interest expense	13,243
Taxes other than income taxes	24,949
	$1,213,109
EARNINGS BEFORE INCOME TAXES AND EXTRAORDINARY ITEMS	$ 49 650
INCOME TAXES (Note A)	
Current	$ 17,505
Deferred	6,829
	$ 24,334
EARNINGS BEFORE EXTRAORDINARY ITEMS	$ 25,316
EXTRAORDINARY ITEMS (Note D)	(692)
NET EARNINGS	$ 24,624
EARNINGS PER SHARE (Note E) :	
Earnings before extraordinary items	$ 1.56
Extraordinary items net	(.04)
Net earnings	$ 1.52

Specialty Stores

Markets served in 1972: Dayton Hudson Booksellers — 40 markets in 26 states; Dayton Hudson Jewelers — 12 markets in 9 states; Team Central — 69 communities in 14 states.

Financial Statistics

(Millions)	1972	1971	Change
Revenues	$89.5	$68.3	31.0%
Earnings Before Interest and Taxes	2.1	1.9	10 5%
Earnings Before Taxes	1.3	1.1	18 0%

Stores and Expansion

	End of 1972		End of 1971	
	Stores	Space*	Stores	Space*
Jewelers	33	230	34	235
Booksellers	80	354	56	266
Team**	17	43	5	15
Total	130	627	95	516

*Thousands of square feet.

**Includes only 100% owned stores; 86 Team stores are franchised or partially owned.

Real Estate

Income from Operating Properties Before Depreciation and Interest totaled $13,163,000 in 1972, a 24-percent increase over 1971.

Income Before Other Expenses and Income Taxes was $11,936,000 in 1972, a 25.1-percent increase over 1971. Other expenses consisted of interest on long term debt and new property development expenses.

Net earnings were $2,879,000 in 1972, a 41.5-percent increase over 1971.

Funds Provided by Operations Before Changes in Long Term Debt were $8,134,000 in 1972, a 3.3-percent decrease from 1971.

Capital expenditures for expansion of real estate operations were $9,856,000 in 1972. The Corporation expects to spend approximately $18 million in 1973.

Markets served in 1972: Detroit, Flint, Michigan; Minneapolis-St. Paul, Minnesota.

Financial Statistics

(Millions)	1972	1971	Change
Net Earnings	$2.9	$2.0	41.5%
Non-Cash Charges	5.2	6.4	(17.6)%
Funds Provided by Operations before Changes in Long Term Debt	$8.1	$8.4	(3.3)%

Space and Expansion

	End of 1972	End of 1971
Shopping Centers*	2,794	2,732
Commercial Buildings*	556	736
Undeveloped Land (acres)	2,559	2,274

*Thousands of square feet.

52 Weeks Ended January 29, 1972
$1,086,425
1,913
$1,088,338
$ 780,527
198 752
17,848
11,706
12,643
24,585
$1,046,061
$ 42,277
$ 14,652
5,006
$ 19,658
$ 22,619
—
$ 22,619
$ 1.39
—
$ 1.39

Results of Operations

Real Estate

(Thousands of Dollars)	53 Weeks Ended February 3, 1973	52 Weeks Ended January 29, 1972
OPERATING PROPERTIES		
Rental Revenue From Operating Properties	$24,320	$22,777
Operating Expenses:		
Occupancy and administrative	$ 6,694	$ 7,077
Maintenance and repairs	779	641
Taxes other than income taxes	3,684	4,400
Depreciation and amortization	4,621	4,805
	$15,778	$16,923
Income from Operating Properties, before interest expense	$ 8,542	$ 5,854
LAND HOLDING		
Real Estate Sales	$10,307	$ 9,641
Costs and Expenses:		
Cost of real estate sales	5,120	4,594
Taxes other than Income Taxes	946	863
Other	847	501
	$ 6,913	$ 5,958
Income from Land Holding, before interest expense	$ 3,394	$ 3,683
INCOME BEFORE OTHER EXPENSES AND INCOME TAXES	$11,936	$ 9,537
OTHER EXPENSES:		
Interest on Long Term Debt:		
Operating properties	$ 4,733	$ 4,785
Land holding	298	457
New Property Development Expense	1,975	868
	$ 7,006	$ 6,110
EARNINGS BEFORE INCOME TAXES	$ 4,930	$ 3,427
INCOME TAXES (Note A)		
Current	$ 1,489	$ (170)
Deferred	562	1,562
	$ 2,051	$ 1,392
NET EARNINGS	$ 2,879	$ 2,035
EARNINGS PER SHARE (Note E)	$ .18	$ .13

Statements of Financial Position

Dayton Hudson Corporation and Subsidiaries

(Thousands of Dollars)

February 3, 1973

ASSETS

	Consolidated	Retail	Real Estate
CURRENT ASSETS			
Cash	$ 17,857	$ 17,218	$ 639
Accounts receivable			
Thirty day accounts	7,157	7,157	—
Deferred payment accounts	163,773	163,773	—
Other accounts	23,271	18,022	5,249
Less allowance for losses	(3,168)	(3,156)	(12)
	191,033	185,796	5,237
Intercompany accounts	—	892	(892)
Merchandise inventories (Note A)	197,836	197,836	—
Supplies and prepaid expenses	4,890	4,725	165
TOTAL CURRENT ASSETS	$411,616	$406,467	$ 5,149
INVESTMENTS AND OTHER ASSETS	$ 14,852	$ 10,037	$ 4,815
PROPERTY AND EQUIPMENT (Notes A & B)			
Land and improvements	$ 83,972	$ 52,063	$ 31,909
Buildings and improvements	342,887	231,692	111,195
Fixtures and equipment	105,888	103,825	2,063
Construction in progress	12,612	4,386	8,226
Accumulated depreciation	(184,227)	(143,422)	(40,805)
	361,132	248,544	112,588
	$787,600	$665,048	$122,552

LIABILITIES

	Consolidated	Retail	Real Estate
CURRENT LIABILITIES			
Notes payable	$ —	$ —	$ —
Accounts payable	81,850	80,112	1,738
Taxes other than income taxes	27,133	19,104	8,029
Accrued liabilities	26,758	25,782	976
Income taxes, currently payable	17,774	16,919	855
Deferred income taxes — installment sales (Note A)	23,525	23,525	—
Current portion of long term debt	8,287	3,896	4,391
TOTAL CURRENT LIABILITIES	$185,327	$169,338	$ 15,989
LONG TERM DEBT (Note B)	$259,039	$176,489	$ 82,550
DEFERRED CREDITS — principally income taxes (Note A)	$ 18,540	$ 13,390	$ 5,150
SHAREHOLDERS' INVESTMENT (Notes B & C)	$324,694	$305,831	$ 18,863
	$787,600	$665,048	$122,552

See notes to financial statements

(Thousands of Dollars)

ASSETS	January 29, 1972 Consolidated	Retail	Real Estate
CURRENT ASSETS			
Cash	$ 25,525	$ 25,296	$ 229
Accounts receivable			
Thirty day accounts	6,913	6,913	—
Deferred payment accounts	144,087	144,087	—
Other accounts	14,764	10,408	4,356
Less allowance for losses	(2,903)	(2,877)	(26)
	162,861	158,531	4,330
Intercompany accounts	—	1,921	(1,921)
Merchandise inventories (Note A)	181,935	181,935	—
Supplies and prepaid expenses	3,442	3,408	34
TOTAL CURRENT ASSETS	$373,763	$371,091	$ 2,672
INVESTMENTS AND OTHER ASSETS	$ 19,971	$ 14,505	$ 5,466
PROPERTY AND EQUIPMENT (Notes A & B)			
Land and improvements	$ 81,393	$ 48,930	$ 32,463
Buildings and improvements	333,448	221,472	111,976
Fixtures and equipment	96,705	95,128	1,577
Construction in progress	6,047	4,728	1,319
Accumulated depreciation	(163,121)	(126,423)	(36,698)
	354,472	243,835	110,637
	$748,206	$629,431	$118,775

LIABILITIES			
CURRENT LIABILITIES			
Notes payable	$ 31,750	$ 31,750	$ —
Accounts payable	69,735	68,401	1,334
Taxes other than income taxes	27,616	19,695	7,921
Accrued liabilities	23,218	22,534	684
Income taxes, currently payable	14,253	13,876	377
Deferred income taxes — installment sales (Note A)	18,595	18,595	—
Current portion of long term debt	12,910	8,908	4,002
TOTAL CURRENT LIABILITIES	$198,077	$183,759	$ 14,318
LONG TERM DEBT (Note B)	$227,238	$153,011	$ 74,227
DEFERRED CREDITS — principally income taxes (Note A)	$ 17,061	$ 12,512	$ 4,549
SHAREHOLDERS' INVESTMENT (Notes B & C)	$305,830	$280,149	$ 25,681
	$748,206	$629,431	$118,775

Statements of Changes in Financial Position
Dayton Hudson Corporation and Subsidiaries

Consolidated

(Thousands of Dollars)	53 Weeks Ended February 3, 1973	52 Weeks Ended January 29, 1972
FUNDS PROVIDED BY		
Operations:		
Earnings before extraordinary items	$ 28,195	$24,654
Items not affecting working capital:		
Depreciation and amortization	24,370	22,653
Increase in non-current deferred income taxes	2,662	3,742
Other prepaid and deferred items	411	292
Total from operations before extraordinary items	$ 55,638	$51,341
Extraordinary items, net of applicable income taxes (Note D)	(692)	—
Extraordinary items not affecting working capital	1,770	—
TOTAL FROM OPERATIONS	$ 56,716	$51,341
Proceeds from sale of investments, less net gain included with extraordinary items	3,150	—
Proceeds from long term debt	37,876	21,721
Disposals of property and equipment	6,300	5,101
Other	1,399	—
	$105,441	$78,163
FUNDS USED FOR		
Additions to property and equipment	$ 36,876	$33,279
Principal payments on long term debt	9,045	17,118
Cash dividends	8,646	8,346
Other	271	2,920
Increase in working capital	50,603	16,500
	$105,441	$78,163
CHANGES IN COMPONENTS OF WORKING CAPITAL:		
Increases (decreases) in current assets:		
Cash	$ (7,668)	$ (433)
Accounts receivable	28,172	22,658
Merchandise inventories	15,901	26,033
Supplies and prepaid expenses	1,448	517
	37,853	48,775
Increases (decreases) in current liabilities:		
Notes payable	(31,750)	3,850
Accounts payable	12,115	17,266
Accrued expenses and other	7,987	5,658
Income taxes, currently payable	3,521	3,389
Current portion of long-term debt	(4,623)	2,112
	(12,750)	32,275
NET INCREASE	$ 50,603	$16,500

See notes to financial statements

s in Financial Position

	53 Weeks Ended February 3, 1973	52 Weeks Ended January 29, 1972
	$ 2,879	$ 2,035
vorking capital		
amortization	4,621	4,805
urrent deferred income taxes	613	1,562
deferred items	21	12
by operations before long term debt	$ 8,134	$ 8,414
on long term debt	(4,503)	(6,574)
t service	$ 3,631	$ 1,840
n debt		
	414	4,705
	12,412	—
y and equipment	6,225	4,779
	365	—
	$23,047	$11,324
nd equipment	$ 9,856	$ 6,340
	9,697	—
hanges net	3,084	5,337
cash	410	(353)
	$23,047	$11,324

Notes to Financial Statements

Dayton Hudson Corporation and Subsidiaries

53 weeks ended February 3, 1973
and 52 weeks ended January 29, 1972

A. ACCOUNTING POLICIES

Dayton Hudson Corporation follows generally conservative accounting policies, which include using the LIFO method of inventory valuation, depreciating fixed assets generally over lives as short as possible, and expensing start-up costs (interest and taxes during construction and pre-opening payroll) as they are incurred. The description of these and other specific accounting policies follow.

Consolidation. The financial statements include the accounts of Dayton Hudson Corporation and subsidiaries, substantially all of which are wholly owned. The joint ventures of the real estate subsidiaries are accounted for on an equity basis.

Financial Data by Lines of Business. Dayton Hudson Corporation is a diversified retail organization which operates department stores, low margin stores and specialty stores. In addition, the Corporation's real estate operation owns and manages regional shopping centers and other commercial properties.

In order to more clearly delineate the effect of the retail and real estate activities on the Corporation's results of operations and financial position, the accompanying financial statements have been presented as consolidated, retail only and real estate only. Because informative reporting requirements differ widely between retail and real estate, it will not be possible in all cases to total individual captions on the retail and real estate financials to agree with consolidated total captions. Since all legal entities are not exclusively either retail or real estate, the following allocation methods have been employed to prepare the separate financial statements.

Assets, liabilities, revenues and expenses specifically identifiable as either retail or real estate have been so designated, with those not specifically identifiable allocated as follows:

Statements of Changes in Financial Position

Retail

(Thousands of Dollars)	53 Weeks Ended February 3, 1973	52 Weeks Ended January 29, 1972
FUNDS PROVIDED BY		
Operations:		
Earnings before extraordinary items	$ 25,316	$22,619
Items not affecting working capital:		
Depreciation and amortization	19,749	17,848
Increase in non-current deferred income taxes	2,049	2,180
Other prepaid and deferred items	390	280
Total from operations before extraordinary items	$ 47,504	$42,927
Extraordinary items, net of applicable income taxes (Note D)	(692)	—
Extraordinary items not affecting working capital	1,770	—
TOTAL FROM OPERATIONS	$ 48,582	$42,927
Proceeds from sale of investments, less net gain included with extraordinary items	3,150	—
Proceeds from long term debt	25,000	17,016
Dividends received from Real Estate	9,697	—
Disposals of property and equipment	165	322
Other	3,669	—
	$ 90,263	$60,265
FUNDS USED FOR		
Additions to property and equipment	$ 27,020	$26,939
Principal payments on long term debt	4,522	10,544
Cash dividends	8,666	8,346
Other	258	114
Increase in working capital	49,797	14,322
	$ 90,263	$60,265
CHANGES IN COMPONENTS OF WORKING CAPITAL		
Increases (decreases) in current assets:		
Cash	$ (8,078)	$ (79)
Accounts receivable	27,265	23,532
Merchandise inventories	15,901	26,033
Supplies and prepaid expenses	1,317	584
Intercompany accounts	(1,029)	(1,749)
	$ 35,376	$48,321
Increases (decreases) in current liabilities:		
Notes payable	$ (31,750)	$ 3,850
Accounts payable	11,711	18,271
Accrued expenses and other	7,587	5,170
Income taxes, currently payable	3,043	3,660
Current portion of long term debt	(5,012)	3,048
	$ (14,421)	$33,999
NET INCREASE	$ 49,797	$14,322

Statements of Change

Real Estate

(Thousands of Dollars)

FUNDS PROVIDED BY

Operations:

Net earnings .....

Items not affecting w

Depreciation and

Increase in non-c

Other prepaid and

Funds provided

payments on

Principal payments o

Funds after de

Other sources:

Increase in long ter

New properties .

Refinancings ...

Disposals of proper

Other ....

FUNDS USED FOR

Additions to property a

Dividends paid to Retai

Other working capital c

Increase (decrease) in

1. Property and equipment and related depreciation of shopping centers are allocated to the applicable retail stores on the basis of the percentage of area occupied by the Corporation's department stores to gross area. The common mall areas, heating, ventilating and air conditioning facilities of the shopping centers are considered real estate properties. Parking lot area is allocated on the basis of leaseable space in the center, which is consistent with industry standards.
2. Secured debt and related interest are allocated on the basis of the property pledged as collateral to the debt. Unsecured long term debt has been assigned to retail.
3. Property taxes are allocated in accordance with general terms of leases with shopping center tenants (either on the basis of gross leaseable area or on the basis of property and equipment cost to rental property and equipment cost).
4. Income tax expense is allocated as follows — tax on capital gains transactions are allocated directly to the appropriate line of business with the remainder allocated using the overall effective rate. All deferred income taxes are carried on the balance sheet of parent company and have been allocated to the real estate and retail lines of business based on the assets associated with those deferred taxes.

Financial data presented elsewhere in the annual report also delineates the results of retail operations between department stores, low margin stores and specialty stores. Corporate Office expenses are allocated to the retail lines of business and real estate based on a formula giving equal weighting to assets employed in the business, sales and payroll dollars.

The pretax income attributed to the various lines of business in prior year's reports was based on the legal structures and did not reflect the transfer of the retail support properties to retail operations as described above. All prior years' lines of business information have been restated to reflect the transfer of those properties consistent with the method used for reporting 1972 results.

Revenues. Retail sales and rental income are recorded on the accrual basis. Gross profit on installment sales are taken up in full for accounting purposes when the sales are recorded. For income tax purposes, however, the installment method of reporting profit on installment sales is used, and the related deferred income taxes are recorded and classified as a current liability. Gains from real estate sales are recorded on the accrual basis and on the installment method for income tax purposes whenever possible. The related deferred income taxes are recorded and classified as "deferred credits" in the Statement of Financial Position.

Costs, Expenses and Related Statement of Financial Position Accounts. Inventories and related cost of sales are accounted for principally by the retail inventory method. Substantially all inventories (approximately 1972 — 88%, 1971 — 90% at year end) are recorded at cost on the last-in, first-out (LIFO) method. The LIFO inventories method generally results in stating inventories at amounts which are less than the amount which would have been determined by using the first-in, first-out (FIFO) costing method during a period of rising prices. Correspondingly, under the LIFO method during inflationary periods, cost of sales is higher and, therefore, profits are lower than if FIFO costing principles had been used. Inventories in the respective years are stated $11.4 million and $8.6 million less than the amount which would have been determined under the retail method without regard to last-in, first-out principles. The remaining inventories are stated at the lower of cost (first-in, first-out) or market.

Property and equipment is carried at cost less accumulated depreciation. The depreciation provision and the related allowances for depreciation are computed by the straight-line method for reporting purposes. For income tax purposes, however, accelerated methods are used and the related deferred income taxes are included in "deferred credits" on the Statement of Financial Position. The following estimated lives are used in computing depreciation: buildings — 20 to 50 years; leaseholds and leasehold improvements — life of lease or expected useful life of the asset whichever is less; and fixtures and equipment — 3 to 20 years. Leasing expenses and allowances to tenants for leasehold improvements are amortized over the life of the leases.

Expenses incurred in obtaining long-term debt are amortized over the period of the debt.

Development expense of new stores, including interest, real estate tax during construction and pre-opening expenses, are expensed as incurred for new stores and for land held for future development. New buildings and major renovation of older buildings are capitalized and depreciated over their estimated useful lives.

Retail customer accounts receivable are generally written off in full when any portion of the unpaid balance is past due twelve months. The allowance for losses arising from uncollectible customer accounts receivable is based on historical bad debt experience and an evaluation of periodic aging of the accounts.

The Corporation and its subsidiaries have several retirement plans covering substantially all employees. The Corporation's policy is to fund retirement costs accrued to date. The contributions to the plans for fiscal 1972 and fiscal 1971 were $4.8 million and $4.4 million respectively. The actuarially computed value of vested benefits of one plan exceeds the total of the accruals and the

total of the pension fund assets by $2.8 million. In the aggregate, however, the total of the accruals and the total of the pension fund assets exceed the actuarially computed value of the vested benefits of all plans. In addition, the Corporation has a Savings and Stock Purchase Plan which is made available to substantially all employees who meet the eligibility requirements (primarily based on age and length of service). Under this plan, the Corporation contributes 50¢ for each dollar deposited by the employee. Vesting commences after participating in the plan for three years and the employee is fully vested after ten years.

Other expenses, including rents, interest, real and personal property taxes and vacations are recorded and reported on the accrual basis.

Income Taxes. The Corporation and its subsidiaries file a consolidated Federal income tax return annually. The investment credit, which is not material to the accompanying financial statements for either 1972 or 1971, is recorded on the flow-through method, thereby reducing the income tax provision in the year in which the credit is available to offset income taxes otherwise payable. The provision for deferred income taxes arises principally from using the installment method for reporting installment sales for income tax purposes and from the use of accelerated depreciation for income tax purposes. The components of the provision for income taxes, before giving effect to tax credits of $350,000 applicable to extraordinary items, is as follows:

(Thousands of Dollars)	1972	1971
Current		
Federal	$15,785	$12,564
State	3,209	1,918
	$18,994	$14,482
Deferred		
Federal	$ 6,723	6,123
State	668	445
	7,391	6,568
Total	$26,385	$21 050

The effective tax rate for 1971 is lower than for 1972 due to a variety of factors, including donation of materially appreciated assets in 1971 and higher state taxes in 1972.

Reclassification of Accounts. Certain account balances of prior years have been reclassified to conform with classifications used in 1972. None of these reclassifications had an effect on net earnings.

B. LONG-TERM DEBT — due beyond one year.

(Thousands of Dollars)	February 3, 1973	January 29, 1972
Sinking Fund Debentures	$ 50,000	$ 50,000
Notes under 1973 Credit Agreement	25,000	—
Notes under 1971 Credit Agreement	29,000	29,000
5⅜% Sinking Fund Notes — payable $800,000 annually to 1982	8,000	8,800
6% Sinking Fund Notes and other unsecured notes — maturing at various dates to 1985 and bearing interest at from 3¾% to 7½%	4,650	2,153
Mortgage notes, notes and contracts for purchase of real estate — payable over periods ranging to 30 years from inception and bearing interest at from 4% to 9¼%	142,389	137,285
	$259,039	$227,238

The 7¾% and 9¾% Sinking Fund Debentures, each for $25 million, under indentures dated 1969 and 1970, due in 1994 and 1995, respectively, are redeemable through minimum annual sinking fund payments of $1.25 million commencing in 1975 and 1976, respectively.

The notes under the 1973 Credit Agreement are payable on January 2, 1975, and bear interest at a variable rate not to exceed an average of 7⅝% over the life of the Agreement. The maximum amount available under the Agreement is $25 million and the Corporation has the option on January 2, 1975, to convert the balance to a term loan payable in 32 equal quarterly installments with final maturity at January 3, 1983.

The notes under the 1971 Credit Agreement bear interest at the prime rate and are payable on December 31, 1973. The maximum amount available under the agreement is $40 million and the Corporation has the option at any time prior to maturity to convert the balance to a term loan payable in 16 equal quarterly installments with final maturity at December 31, 1977. In February, 1973, $25 million owing at year-end under the 1971 Credit Agreement was refinanced by $25 million of short term bank notes.

The 7¾% and 9¾% Sinking Fund Debentures, the Credit Agreements and the 5⅜% and 6% Sinking Fund notes each contain varying provisions and restrictions for the protection of the lenders relating to working capital, sale of receivables, dividends and other restricted payments and other restrictive covenants. Under the most restrictive of these provisions, $58.4 million of retained earnings at February 3, 1973, was available for dividends and other restricted payments.

The net carrying amount of land, buildings and equipment pledged as collateral to mortgage notes aggregated $164 million at February 3, 1973.

C. SHAREHOLDERS' INVESTMENT

(Thousands of dollars)

	Total	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings
Balance January 30, 1971	$289,560	$ 622	$ 16,018	$ 39,309	$233,611
Net Earnings	24,654				24,654
Cash Dividends:					
On Common Stock ($.50 a share)	(8,008)				(8,008)
On Preferred Stock	(338)				(338)
Common Stock Purchased for Treasury (2,737 shares)	(31)		(3)		(28)
Other	(7)			(7)	
Balance January 29, 1972	$305,830	$ 622	$ 16,015	$ 39,302	$249,891
Net Earnings	27,503				27,503
Cash Dividends:					
On Common Stock ($.52 a share)	(8,329)				(8,329)
On Preferred Stock	(337)				(337)
Common Stock Purchased for Treasury (559 shares)	(2)		(1)		(1)
Other	29	(5)	3	31	
Balance February 3, 1973	$324,694	$ 617	$ 16 017	$ 39,333	$268 727

Preferred Stock — Authorized 200,000 shares voting without par value, issuable in series; outstanding at February 3, 1973, and January 29, 1972, 34,675 and 35,175 shares, respectively, of $5 Convertible Preferred Stock (liquidation value of $3.5 million), and 27,000 shares of $6 Convertible Preferred Stock (liquidation value of $2.7 million); convertible into Common Stock at 2⅔ shares for each share of Preferred Stock.

Common Stock — Authorized 20,000,000 shares par value $1 a share; outstanding at February 3, 1973 consists of 16,081,118 issued shares less 64,053 shares in treasury, and at January 29, 1972, 16,081,118 issued less 65,977 shares in treasury.

D. EXTRAORDINARY ITEMS

(Thousands of dollars)

Write down of investment in catalog showroom business in connection with contemplated disposition of that business, net of applicable income tax credits of $911	$(1,770)
Gain on sale of investments, less applicable income taxes of $561	$ 1,078
	$(692)

E. PER COMMON SHARE DATA

Earnings per common share, consolidated and retail, are based on net earnings less dividends on preferred stock and earnings per common share of real estate based on net earnings and are computed on the weighted average number of shares outstanding during the year.

F. INCENTIVE AND STOCK OPTION PLAN

Dayton Hudson Corporation has an Executive Incentive Plan for employees selected by the chief executive officer of the participating companies. Each incentive award is based upon an annual individual management appraisal of the participant's performance in the immediately preceding fiscal year. The participant may elect to have payment of all or a part of his incentive award deferred until termination of his employment. The amounts charged to expense under this plan for the years ended February 3, 1973, and January 29, 1972, are $2.7 and $2.5 million, respectively.

The Corporation has granted stock options to key employees under the 1972 Employee Stock Option Plan and the Qualified Stock Option Plan. No new options will be awarded under the Qualified Stock Option Plan, adopted by the Corporation in 1967.

Under the 1972 Employee Stock Option Plan, certain eligible employees received qualified stock options, non-qualified stock options, and a right to elect to receive, without payment of cash to the Corporation, a number of shares as determined under a formula in lieu of exercise of the related qualified and non-qualified stock options. The qualified and non-qualified stock options were granted at 100% of market at date of grant with the qualified stock option expiring in five years and the non-qualified stock option in ten years. To the extent option shares are used in calculating stock rights, the related option shares are cancelled.

400,000 shares were originally reserved for issuance under the 1972 Stock Option Plan. Under a recent Internal Revenue Service ruling, no additional qualified stock options may be granted under the plan in its present form. The company expects that the Board of Directors will amend the plan during 1973 to comply with the requirements of the Internal Revenue Service so additional options may be issued under the 1972 plan. At February 3, 1973, there were 361,250 shares available for grant.

Under Accounting Principles Board Opinion 25 issued in October, 1972, some of the options granted and those to be granted could, under certain circumstances, result in charges against operations of the Corporation as compensation to the participant. There were no such charges during 1972.

Options for the purchase of 194,650 and 111,250 shares were outstanding at February 3, 1973 and January 29, 1972, respectively at prices ranging from $24.12 to $39.00 per share. Options for 3,100 and 8,900 shares were cancelled during 1972

and 1971 respectively. Options for 1,150 and 50 shares were exercised in 1972 and 1971 respectively at prices ranging from $24.69 to $33.75 per share. Options for 26,749 and 26,688 shares during 1972 and 1971, respectively, became exercisable at prices ranging from $24.69 to $39.00 a share.

G. COMMITMENTS

The consolidated minimum annual rentals of long-term leases of the Corporation and subsidiaries, generally not exceeding 30 years from inception, were $12.0 million and $6.9 million at February 3, 1973, and January 29, 1972, respectively. Most of the leases require additional payments for real estate taxes, insurance, other expenses and rentals based on percentages of sales. Minimum annual rental income from space leased to a supermarket chain was $2.0 million and $1.4 million in the respective years. Commitments for construction of new facilities and the purchase of real estate amounted to approximately $20.8 million and $16.5 million at February 3, 1973, and January 29, 1972, respectively.

H. CREDIT SALES RESULTS

Credit sales in 1972 and 1971 were $512.2 and $443.3 million, respectively. Regular charge account sales (which include 30-day and revolving charge accounts) account for approximately 94 percent of total credit sales in both years with time payments accounting for the balance. Key statistics regarding credit operations are as follows:

	1972	1971
Average balance per regular account	$ 99	$ 98
Average balance per time payment account	$ 220	$ 209
Net bad debt losses as percent of total credit sales for year	0.6%	0.9%

The cost of the retail credit operation is presented in accordance with a practice proposed for the retail industry and is as follows:

(In millions)	1972	1971
Service charge income	$ 16.4	$ 13.0
Costs		
Administration	14.5	12.6
Interest	9.3	8.1
Provision for doubtful accounts	2.9	4.0
Income taxes	(5.0)	(5.4)
Total cost	$ 21.7	$ 19.3
Net cost of credit	$ 5.3	$ 6.3
Net cost as percent of credit sales	1.0%	1.4%

Administration includes the costs of operating the credit offices and that portion of in-store costs related to credit activities.

Interest is stated at the average rate for borrowings of Dayton Hudson retail operations (6.6 percent in 1972; 6.6 percent in 1971) applied to the average total customer accounts receivable less deferred income taxes resulting from retail installment sales.

Income taxes are based on the Company's overall effective income tax rate.

Accountants' Report

Board of Directors and Shareholders
Dayton Hudson Corporation
Minneapolis, Minnesota

We have examined the statements of financial position of Dayton Hudson Corporation and subsidiaries as of February 3, 1973 and January 29, 1972, and the related statements of earnings and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying statements of financial position and statements of earnings and changes in financial position present fairly the financial position of Dayton Hudson Corporation and subsidiaries at February 3, 1973 and January 29, 1972 and the results of their operations, changes in shareholders' investment and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Further, it is our opinion that the accompanying financial information which presents the financial position of the Retail and Real Estate operations at February 3, 1973 and January 29, 1972, and their respective results of operations and changes in financial position for the years then ended, included in the consolidated financial statements of Dayton Hudson Corporation and subsidiaries, is presented fairly in relation to the consolidated financial statements taken as a whole and in conformity with the accounting practices described in Note A to such financial statements applied on a consistent basis.

March 23, 1973

Ernst & Ernst

Ten Year Comparisons
Dayton Hudson Corporation and Subsidiaries

	1972	1971
TOTAL REVENUES (millions)	$1,297.4	$1,120.8
EARNINGS BEFORE INCOME TAXES AND EXTRAORDINARY ITEMS (millions)	54 6	45.7
INCOME TAXES — Federal, state and local (millions)	26.4	21 0
EARNINGS BEFORE EXTRAORDINARY ITEMS (millions)	28 2	24.7
NET EARNINGS (millions)	27.5	24.7
DEPRECIATION AND AMORTIZATION (millions)	24 4	22.6
RETURN ON BEGINNING SHAREHOLDERS' EQUITY	9.2%	8 6%
PER COMMON SHARE		
— Net earnings before extraordinary items	1.74	1 52
— Net earnings	1.70	1.52
— Cash Dividend[a]	52	.50
— Book Value	19.88	18.70
CAPITAL EXPENDITURES (millions)	36 9	33 3
YEAR END FINANCIAL POSITION (millions)		
Working Capital	226.3	175 7
Property and equipment, net of depreciation:		
Retail	248.5	243.8
Real Estate	112.6	110.7
	361 1	354 5
Long-Term Debt:		
Retail	176 4	153 0
Real Estate	82 6	74.2
	259.0	227.2
Shareholders' Equity	324 7	305 8
AVERAGE COMMON SHARES OUTSTANDING (thousands)	16 017	16,017

The Ten Year Comparisons should be read in conjunction with the Financial Review and Financial Statements

The amount of property and equipment and long term debt attributable to retail and real estate for previous years has been restated from that reported in previous annual reports to be consistent with a change in allocation of certain assets from real estate to retail in 1972. (See Note A to Financial Statements for further explanation)

[a]On a historical basis after giving retroactive effect to stock splits.

1970	1969	1968	1967	1966	1965	1964	1963
$ 971.3	$ 890 2	$ 813.4	$ 728.4	$ 666.3	$ 602.7	$ 531 2	$ 476.0
37 6	48.1	51.0	46.6	44 6	46 0	37.1	25.3
18.6	24 4	26.4	22.0	20 7	22.1	17.8	12.4
19 0	23 7	24.6	24.6	23 9	23 9	19 3	12.9
19 0	23 7	24.6	24.6	23 9	23 9	19 3	12.9
19 7	16 2	14.0	13.0	12 3	11 0	10 1	9.6
7.0%	9 3%	10.3%	11.6%	12.4%	13 8%	12 4%	8.9%
1.16	1 49	1.54	1.58	1 58	1 54	1 23	.79
1 16	1 49	1.54	1.58	1 58	1 54	1 23	.79
50	50	.40	.16	.07	01	—	—
17 69	16 84	15.94	14.86	13 47	11 89	10 36	9.14
56 8	92 8	52.9	32.5	29 3	23 8	21.2	16.6
159 2	148 8	135.0	134 8	126 7	118 7	92 8	91.2
234 7	206 7	159.5	123.6	109 4	98 7	90 7	86.7
113 4	105 8	79.2	78.5	79 9	75 1	71 5	65.2
348 1	312 5	238.7	202.1	189 3	173 8	162 2	151.9
146 5	124 4	80.4	51.0	52 8	44 1	43 3	43.9
76 1	69 3	38.4	47.3	51 5	53 8	37.7	41.0
222 6	193 7	118.8	98.3	104 3	97 9	81.0	84.9
289.6	269.7	255.8	237.7	211 5	193.5	173.0	155.4
16,020	15,814	15,850	15,262	14,582	14,894	14,875	14,934

Five Year Comparisons
Dayton Hudson Corporation and Subsidiaries

RETAIL

	1972[1]	1971	1970	1969	1968
DEPARTMENT STORES					
Sales (millions)	$ 732.9	$ 674.2	$ 602.3	$ 608.2	$583.6
Earnings before allocated interest and income taxes (millions)	$ 47.2	$ 35.6	$ 35.4	$ 42.7	$ 41.0
Percent to sales	6.4%	5.3%	5.9%	7.0%	7.0%
Allocated interest (millions)	$ 8.0	$ 8.1	$ 7.9	$ 5.3	$ 2.4
Earnings before income taxes (millions)	$ 39.2	$ 27.5	$ 27.5	$ 37.4	$ 38.6
Percent to sales	5.3%	4.1%	4.6%	6.1%	6.6%
Number of stores	31	30	26	23	21
Total square feet (thousands)	9,208	9,294	8,683	8,032	7,675
Sales per square foot	$ 79.59	$ 72.54	$ 69.37	$ 75.72	$76.04
LOW MARGIN STORES					
Sales (millions)	$ 440.4	$ 345.8	$ 289.0	$ 233.5	$189.5
Earnings before allocated interest and income taxes (millions)	$ 13.3	$ 17.3	$ 12.8	$ 10.9	$ 11.4
Percent to sales	3.0%	5.0%	4.4%	4.7%	6.0%
Allocated interest (millions)	$ 4.1	$ 3.6	$ 4.0	$ 3.1	$ 1.6
Earnings before income taxes (millions)	$ 9.2	$ 13.7	$ 8.8	$ 7.8	$ 9.8
Percent to sales	2.1%	4.0%	3.0%	3.3%	5.2%
Number of stores	50	34	27	19	13
Total square feet (thousands)	5,518	4,220	3,516	2,390	1,577
Sales per square foot	$ 79.81	$ 81.94	$ 82.18	$ 97.70	$120.16
SPECIALTY STORES					
Sales (millions)	$ 89.5	$ 68.3	$ 55.6	$ 27.1	$ 22.8
Earnings before allocated interest and income taxes (millions)	$ 2.1	$ 1.9	$ .8	$ .3	$ 1.0
Percent to sales	2.3%	2.8%	1.4%	1.1%	4.4%
Allocated interest (millions)	$ .8	$ .8	$ .7	$ .5	$ .1
Earnings before income taxes (millions)	$ 1.3	$ 1.1	$ .1	$ (.2)	$ .9
Percent to sales	1.5%	1.6%	.2%	(.7)%	3.9%
Number of stores	130	95	72	52	39
Total square feet (thousands)	627	516	431	313	250
Sales per square foot	$142.74	$132.36	$129.00	$ 86.58	$91.24
TOTAL RETAIL					
Sales (millions)	$1,262.8	$1,088.3	$ 946.9	$ 868.8	$795.9
Earnings before allocated interest and income taxes (millions)	$ 62.6	$ 54.8	$ 49.0	$ 53.9	$ 53.4
Percent to sales	5.0%	5.0%	5.2%	6.2%	6.7%
Interest allocated to retail (millions)	$ 12.9	$ 12.5	$ 12.6	$ 8.9	$ 4.1
Earnings before income taxes (millions)	$ 49.7	$ 42.3	$ 36.4	$ 45.0	$ 49.3
Percent to sales	3.9%	3.9%	3.8%	5.2%	6.2%
Net earnings (millions)	$ 25.3	$ 22.6	$ 17.5	$ 21.8	$ 23.7
Percent to sales	2.0%	2.1%	1.8%	2.5%	3.0%
Funds provided by operations, before changes in long term debt	$ 47.5	$ 42.9	$ 36.3	$ 37.3	$ 36.1
Number of stores	211	159	125	94	73
Total square feet (thousands)	15,353	14,030	12,630	10,735	9,502
Sales per square foot	$ 82.25	$ 77.57	$ 74.98	$ 80.93	$83.76
Capital expenditures (millions)	$ 27.0	$ 26.9	$ 42.8	$ 60.9	$ 41.5

[1] All earnings data for 1972 are exclusive of extraordinary items.

Five Year Comparisons (Continued)

[illegible]

	1972	1971	1970	1969	1968
OPERATING PROPERTIES					
Rental revenue (millions)	$ 24.3	$ 22.8	$18.5	$14.8	$12.7
Income before depreciation and interest (millions) (see Page 4)	$ 13.2	$ 10.6	$ 7.5	$ 6.5	$ 5.4
Income before interest (millions)	$ 8.5	$ 5.8	$ 3.8	$ 3.3	$ 2.2
Gross leasable square feet (thousands)	3,350	3,468	3,298	2,467	1,811
LAND HOLDING					
Real estate sales (millions)	$ 10.3	$ 9.6	$ 5.9	$ 6.6	$ 4.8
Income before interest (millions)	$ 3.4	$ 3.7	$ 2.8	$ 4.1	$ 2.7
Undeveloped land at year end (acres)	2,559	2,274	1,878	1,841	1,687
TOTAL REAL ESTATE					
Revenues (millions)	$ 34.6	$ 32.4	$24.4	$21.4	$17.5
Income before other expense and income taxes (millions)	$ 11.9	$ 9.5	$ 6.6	$ 7.4	$ 4.9
Earnings before income taxes (millions)	$ 4.9	$ 3.4	$ 1.3	$ 3.1	$ 1.7
Net earnings (millions)	$ 2.9	$ 2.0	$ 1.5[a]	$ 1.8	$ .8
Funds provided by operations before changes in long term debt (millions)	$ 8.1	$ 8.4	$ 6.2	$ 6.2	$ 4.5
Capital expenditures (millions)	$ 9.9	$ 6.3	$13.9	$31.8	$11.4

[a]Net earnings in 1970 were in excess of earnings before income taxes due to operating loss tax benefits at regular tax rates coupled with capital gains tax on real estate sales.

The Five Year Comparisons should be read in conjunction with the Financial Review and Financial Statements

The earnings before income taxes of the various lines of business on Pages 34 and 35, for the years 1968-71 have been restated from that reported in previous annual reports to be consistent with a change in allocation of certain assets from real estate to retail in 1972. The earnings before income taxes for the various lines of business in 1972 and prior years, if this change had not been made, are as follows (see Note A to Financial Statements for further explanation):

(In millions)	1972	1971	1970	1969	1968
Department Stores	$34.4	$24.3	$24.2	$34.5	$36.0
Low Margin Stores	10.6	14.2	10.1	9.1	10.3
Specialty Stores	1.7	1.4	.4	.2	.9
Total Retail	$46.7	$39.9	$34.7	$43.8	$47.2
Total Real Estate	$ 7.9	$ 5.8	$ 2.9	$ 4.3	$ 3.8

DEPARTMENT STORES

Hudson's — Joseph L. Hudson, Jr., Chairman
Edwin G. Roberts, President
Michigan and Ohio

Dayton's — Carl R. Erickson, Chairman
Roy C. Eberhard, President
Minnesota

Diamond's — W. Wallace Barrett, President
Arizona and Nevada

Lipman's — Edward F. Finn, President
Oregon

John A. Brown — James W. Sherburne, President
Oklahoma

LOW MARGIN STORES

Target — William A. Hodder, President
Colorado, Illinois, Iowa, Minnesota, Missouri, Nebraska, Oklahoma, Texas and Wisconsin

Lechmere — Maurice M. Cohen, Chairman
Norman D. Cohen, President
Massachusetts

SPECIALTY STORES

Dayton Hudson Booksellers — Bruce G. Allbright, Jr., President
B. Dalton, Bookseller
Arizona, California, Florida, Georgia, Illinois, Indiana, Kansas, Kentucky, Michigan, Minnesota, Missouri, Nebraska, Nevada, New Jersey, New Mexico, New York, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, South Carolina, South Dakota, Texas, Washington and Wisconsin
Pickwick Bookshops
California

Dayton Hudson Jewelers — Joseph J. Freedman, President
J. E. Caldwell
Delaware, New Jersey and Pennsylvania
J. B. Hudson
Minnesota and Nebraska
J. Jessop & Sons
California
C. D. Peacock
Illinois
Shreve's
California
Charles W. Warren
Michigan and Ohio

Team Central — Edgar C. Moreland, President
Alaska, Colorado, Illinois, Iowa, Kansas, Michigan, Minnesota, Missouri, Montana, Nebraska, North Dakota, Oklahoma, South Dakota and Wisconsin

REAL ESTATE

Dayton Hudson Properties — Robert J. Crabb, President
Michigan and Minnesota

Dayton Hudson Corporation

At the close of 1972, Dayton Hudson Corporation was operating 211 stores (indicated by dots at right) in 31 states — not including 86 franchised or partially owned Team Electronics Centers.

Directors

William A. Andres, Executive Vice President-Retail Operations
Maurice M. Cohen, Chairman, Lechmere
Bruce B. Dayton, Chairman of the Board
Donald C. Dayton, Retired Chairman of the Board
Douglas J. Dayton, Chairman, Dade, Inc.
K. N. Dayton, President and Chief Executive Officer
Wallace C. Dayton, Conservationist
William A. Hodder, Senior Vice President
Joseph L. Hudson, Jr., Vice Chairman of the Board
Stephen F. Keating, President, Honeywell Inc.
Robert J. Keith, Retired Chairman of the Board, The Pillsbury Company
David M. Lilly, Chairman of the Board, The Toro Company
Philip H. Nason, Chairman of the Board, The First National Bank of St. Paul
William E. Roberts, Retired Chairman, Lipman's
Paul N. Ylvisaker, Dean of the Graduate School of Education, Harvard University

Officers

Bruce B. Dayton, Chairman of the Board
K. N. Dayton, President and Chief Executive Officer
Joseph L. Hudson, Jr., Vice Chairman of the Board
William A. Andres, Executive Vice President-Retail Operations
Robert J. Crabb, Senior Vice President
Carl R. Erickson, Senior Vice President
William A. Hodder, Senior Vice President
Stephen L. Pistner, Senior Vice President
Wayne E. Thompson, Senior Vice President-Environmental Development
Gerald R. Dirks, Vice President-Investments
Glenn E. Johnson, Vice President-Western Department Stores Group
Reid Johnson, Vice President and Treasurer
Albert B. Perlin, Vice President and Secretary
Richard L. Schall, Vice President-Controller
John E. Schwarz, Vice President-Corporate Development
James M. Shipton, Vice President-Personnel and Communications
J. R. A. Boline, Assistant Treasurer
Peter Corcoran, Assistant Treasurer
Willard C. Shull III, Assistant Treasurer
William E. Harder, Assistant Secretary

Corporate Offices

777 Nicollet Mall, Minneapolis, Minnesota 55402
Telephone: (612) 370-6948

Transfer Agents

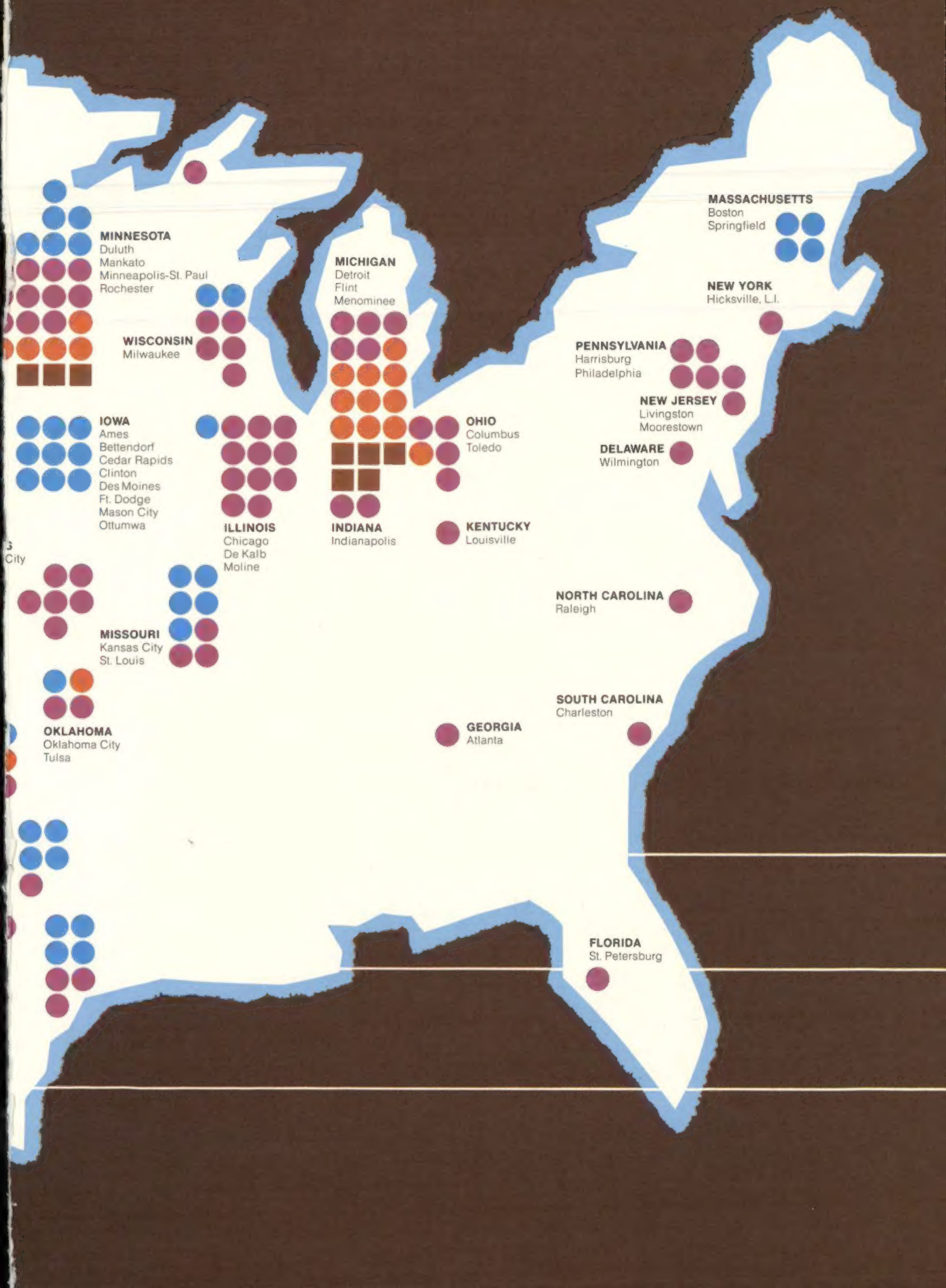
Northwestern National Bank of Minneapolis
First National City Bank, New York City

Registrars

First National Bank of Minneapolis
The Chase Manhattan Bank, N. A., New York City

Shares Listed

New York Stock Exchange
Symbol: DH



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Mankato
Minneapolis-St. Paul
Rochester
WISCONSIN
Milwaukee
MICHIGAN
Detroit
Flint
Menominee
MASSACHUSETTS
Boston
Springfield
NEW YORK
Hicksville, L.I.
PENNSYLVANIA
Harrisburg
Philadelphia
NEW JERSEY
Livingston
Moorestown
DELAWARE
Wilmington
IOWA
Ames
Bettendorf
Cedar Rapids
Clinton
Des Moines
Ft. Dodge
Mason City
Ottumwa
OHIO
Columbus
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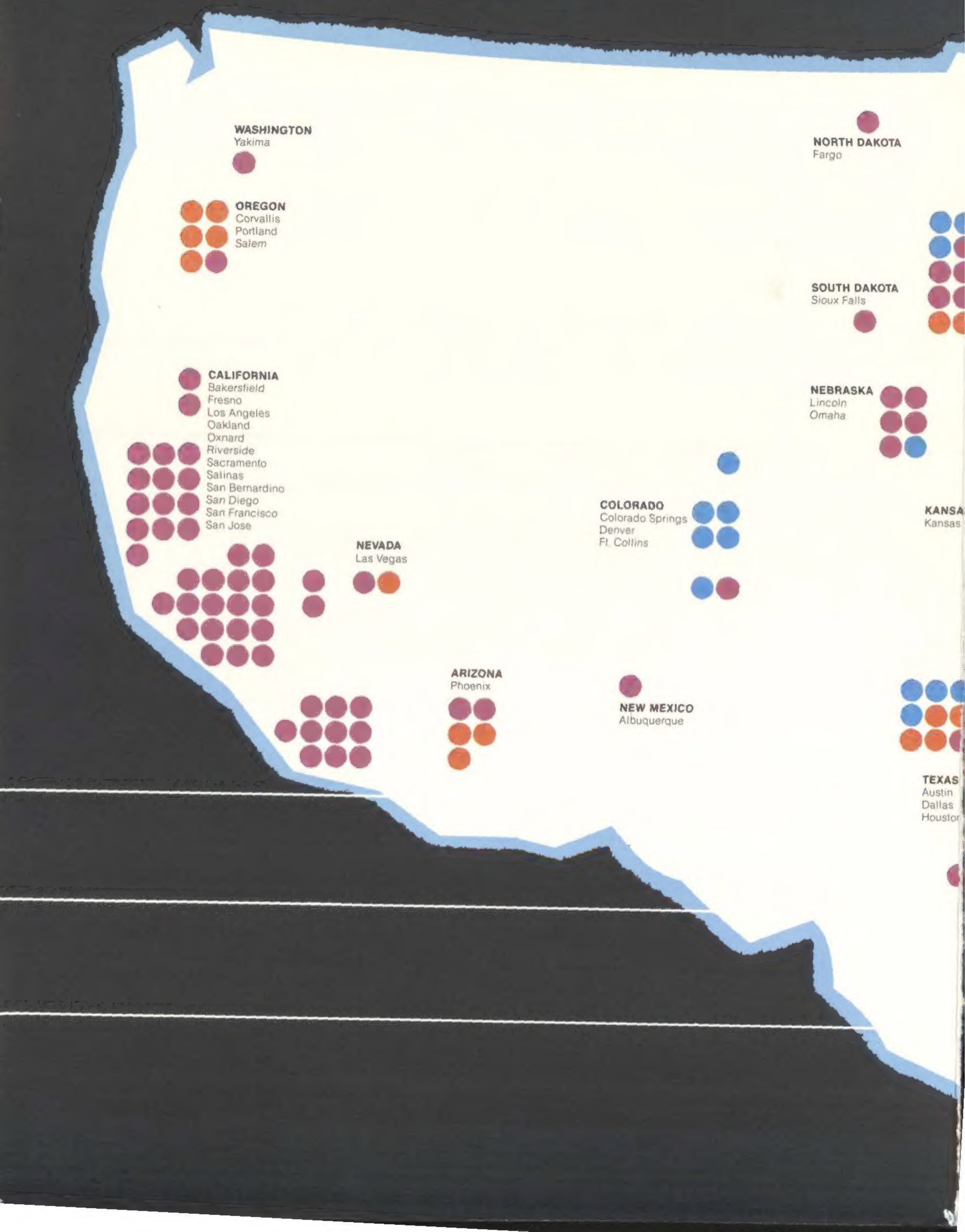
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